



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	<b>06/23/03</b>	Bill No:	<b>SB 389</b>
Tax:	<b>Alcoholic Beverage</b>	Author:	<b>Romero</b>
Board Position:		Related Bills:	<b>SB 108 (Romero)</b> <b>SB 5X (Romero)</b> <b>SB 726 Romero)</b> <b>AB 216 (Chan)</b>

### BILL SUMMARY

This bill would impose a surtax of \$0.25 per gallon on beer, wine, sparkling wine, hard cider, and distilled spirits.

### ANALYSIS

#### Current Law

Under current law, Sections 32151, 32201, and 32220 of the Alcoholic Beverage Tax Law imposes the following taxes and surcharges on the sale of beer, wine, and distilled spirits:

	<u>Tax</u>	<u>Per Gallon Surcharge</u>	<u>Total</u>
Beer	\$0.04	\$0.16	\$0.20
Wine (not more than 14 percent alcohol)	\$0.01	\$0.19	\$0.20
Wine (more than 14 percent alcohol)	\$0.02	\$0.18	\$0.20
Sparkling wine	\$0.30	\$0.00	\$0.30
Hard cider	\$0.02	\$0.18	\$0.20
Distilled spirits (100 proof)	\$2.00	\$1.30	\$3.30
Distilled spirits (100+ proof)	\$4.00	\$2.60	\$6.60

The proceeds from these taxes and surcharges are deposited in the General Fund.

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### Proposed Law

This bill would add Chapter 5.8, commencing with Section 32231, to Part 14 of Division 2 of the Revenue and Taxation Code to impose a surtax of twenty-five cents per wine gallon on beer, wine, sparkling wine, sparkling hard cider, and distilled spirits. The proposed surtax would become effective August 1, 2003, at 2:01 a.m. The tax, surtax rate, and proposed surtax would be as follows:

	<u>Tax</u>	<u>Per Gallon Surcharge</u>	<u>Proposed Surtax</u>	<u>Total</u>
Beer	\$0.04	\$0.16	\$0.25	\$ 0.45
Wine (not more than 14 percent alcohol)	\$0.01	\$0.19	\$0.25	\$ 0.45
Wine (more than 14 percent alcohol)	\$0.02	\$0.18	\$0.25	\$ 0.45
Sparkling wine	\$0.30	\$0.00	\$0.25	\$ 0.55
Hard cider	\$0.02	\$0.18	\$0.25	\$ 0.45
Distilled spirits (100 proof)	\$2.00	\$1.30	\$0.25	\$ 3.55
Distilled spirits (100+ proof)	\$4.00	\$2.60	\$0.25	\$ 6.85

This bill would also impose a floor stock tax on beer, wine, sparkling cider, and distilled spirits in inventory as of August 1, 2003, at 2:01 a.m.

The proposed surtax revenue would be allocated to the General Fund.

### Background

In order to bridge the gap between revenues and expenses in the 1991-92 state budget, a surtax was added to the existing excise tax on alcoholic beverages. Assembly Bill 30 (Chapter 86, 1991) added the alcoholic beverage surtax under current Section 32220, effective July 15, 1991. Before the tax increase, excise taxes on most alcoholic beverages had remained the same since the 1950's, with the exception of an increase in the excise tax on distilled spirits in 1967 and 1978.

Senate Bill 248 (Romero) and Senate Bill 928 (Romero), introduced during the 2001-02 Legislative Session, would have imposed a five-cent per drink fee on any wholesaler located within the state who distributes alcoholic beverages to retailers for consumption in the state. The fee would be based on 1.5 ounces of distilled spirits and 12 ounces of beer. Both bills would have required the proposed fee be administered by the Department of Alcoholic Beverage Control. Both SB 248 and SB 928 failed passage in the Assembly Health Committee.

Assembly Bill 2744 (Thomson and Chan), introduced during the 2002 Legislative Session, would have increased the alcoholic beverage surtax for all alcoholic beverages in this state. AB 2744 failed to passage in the Assembly Health Committee.

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**COMMENTS**

1. **Sponsor and purpose.** This bill is sponsored by the author. The purpose of this bill is to raise additional revenue to help cover the current budget deficit.
2. **Key amendments.** The introduced and previously amended version of this bill contained provisions related to income tax credits. **June 23** amendments removed the provisions related to income tax credits, and inserted the provisions imposing a surtax on alcoholic beverages.
3. **Effective date of the proposed surtax.** The proposed surtax in this bill would become effective on August 1, 2003, at 2:01 a.m. Alcoholic beverages in inventory as of the operative date of the proposed surtax would be subject to a floor stock tax provision at the same rate of the proposed surtax. The floor stock tax return would be due to the Board on or before September 15, 2003.
4. **This bill should contain a specific appropriation to the Board.** This bill proposes a surtax to be imposed effective August 1, 2003, which is in the middle of the state's fiscal year. The Board is likely to incur administrative costs associated with the provisions in this bill that would not be absorbable within the Board's current budget. It is recommended that the bill be amended to include an appropriation to cover the Board's administrative costs associated with provisions in this bill.
5. **Related legislation.** Senate Bill 108 (Romero) and Senate Bill 5X (Romero) both contain provisions that would impose a five-cent (\$0.05) per drink fee on any wholesaler in this state of beer, wine, and distilled spirits. Assembly Bill 216 (Chan) would require the Board to collect a fee from beer and distilled spirits manufacturers and importers whose products are consumed by underage youth. Senate Bill 726 (Romero) would authorize a county to impose a tax on the retail sale of beer, wine or distilled spirits sold for consumption on the premises of the seller.

**COST ESTIMATE**

Enactment of this bill would have an impact on the Board's administrative costs incurred for programming, modification of returns to reflect the new tax rates, notification of all affected taxpayers registered with the Board prior to the rate change, processing of the floor stock tax returns, increased workload in the return processing area due to errors on returns, and increased workload for the audit and compliance staff administering the tax program. A detailed cost estimate is pending.

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As a point of reference, Board staff prepared a cost estimate for administering Assembly Bill 2744 from the previous legislative session, which contained similar provisions as this bill. The estimated costs associated with administering the provisions in AB 2744 were as follows:

	2002-03	2003-04	2004-05	2005-06
Personal Services	\$ 865,800	\$ 836,800	\$ 320,600	\$ 271,100
Operating Expense & Equipment	\$ 408,300	\$ 127,800	\$ 127,800	\$ 95,700
Total	<u>\$1,274,100</u>	<u>\$ 964,600</u>	<u>\$ 448,000</u>	<u>\$ 366,800</u>

## REVENUE ESTIMATE

This bill would impose a surtax of \$0.25 per gallon on all types of alcoholic beverages. The proposed tax would become effective August 1, 2003. The bill includes a floor stock tax.

### Background, Methodology, and Assumptions

Excise Tax. The excise tax rates for alcohol currently range from \$0.20 per gallon (for beer, dry wine, and sweet wine) to a high of \$6.60 per gallon (for distilled spirits over 100 proof). Based on historical data, estimates of alcohol revenues under current law and proposed law for fiscal year 2003-04 are shown in the table below.

Alcoholic Beverage	Estimated 2003-04 Gallons (thousands)	Current Excise Tax Rate (dollars per gallon)	Revenue Under Current Rate (thousands of dollars)	Proposed Excise Tax Rate (dollars per gallon)	Revenue Under Proposed Rate (thousands of dollars)
Beer	665,907	\$ 0.20	\$ 133,181	\$ 0.45	\$ 299,658
Wine	104,433	\$ 0.20	\$ 20,887	\$ 0.45	\$ 46,995
Champagne	5,836	\$ 0.30	\$ 1,751	\$ 0.55	\$ 3,210
Distilled Spirits					
< 100 proof	42,673	\$ 3.30	\$ 140,821	\$ 3.55	\$ 151,489
> 100 proof	190	\$ 6.60	\$ 1,254	\$ 6.85	\$ 1,302
Total	<u>819,039</u>		<u>\$ 297,894</u>		<u>\$ 502,653</u>

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Floor Stock Tax. We assume an average inventory of about four weeks for beer and eight weeks for most other types of alcoholic beverages. Revenues for the floor stock tax are estimated to total \$19.0 million. Details are shown in the table below.

Alcoholic Beverage	Tax Rate	2003-04 Gallons (thousands)	Floor Gallons (thousands)	Floor Stock Tax Revenue (thousands)
Beer	\$ 0.25	665,907	53,273	\$ 13,318
Wine	\$ 0.25	104,433	15,665	\$ 3,916
Champagne	\$ 0.25	5,836	875	\$ 219
Distilled Spirits < 100 proof	\$ 0.25	42,673	6,401	\$ 1,600
Distilled Spirits > 100 proof	\$ 0.25	190	7	\$ 2
Total		819,039	76,221	\$ 19,055

Sales Tax Impacts. The sales tax impacts of the alcohol excise tax increase and the floor stock tax are shown in the table below.

Sales Tax  
Impacts

	Excise Tax	Floor Stock Tax	Total
	Millions of Dollars		
State (5%)	9.4	1.0	10.4
Local (2.25%)	4.2	0.4	4.6
Transit (0.67%)	1.3	0.1	1.4
Total	\$14.9	\$1.5	\$16.4

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### Revenue Summary

Total alcohol excise taxes would increase approximately \$204.8 million (from \$297.9 million to \$502.7 million) under the provisions in this bill for a complete fiscal year. Since the tax would become effective on August 1, 2003, revenues for fiscal year 2003-04 are estimated to be \$187.7 million  $[(204.8 \times (11/12)) = 187.7]$ . Floor stock tax revenues would be an additional \$19.0 million.

In addition to the excise tax increases, sales tax revenues would increase from adding the excise tax to retail prices. At an average state and local tax rate of 7.92 percent, state and local revenues would increase an additional \$16.4 million in fiscal year 2003-04.

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